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BRITISH COLUMBIA

# MUNICIPAL PENSION PLAN

## ANNUAL REPORT 1999

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# MESSAGE FROM THE BOARD

I am pleased to present you with the Municipal Pension Plan Annual Report for the fiscal year ending December 31, 1999. There are currently over 100,000 active plan members and over 32,000 retired members in the plan, with about 800 participating employers across the public sector.

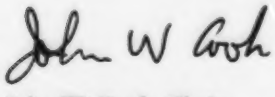
The Municipal Pension Plan is financially sound. Net assets grew 15% in 1999 to $14 billion at December 31, 1999. The most recent actuarial valuation for December 1997 showed that the unfunded liability, on a funding basis, had declined by over half, from $1.3 billion in 1994 to $550 million in 1997. The plan has a statutory funding policy to provide for the long-term reduction of the unfunded actuarial liability. The next actuarial valuation will be as at December 31, 2000.

In 1999 the Municipal Pension Board participated in major consultations regarding pension reform. This led to new legislation—the *Public Sector Pension Plan Act*—which was tabled in the legislature and received royal assent in July 1999, and which was fully in effect on April 1, 2000. For more details, see "Roles and Responsibilities."

The Municipal Pension Board continues to focus on communication with plan members as one of its highest priorities. For more details, refer to the "Member Services" section.

The board recognizes that service levels to members in 1999 have fallen below what is acceptable. This has occurred, in part, because of efforts during 1999 and into early 2000 to implement the commission's new pre-retirement pension administration system, and to ensure that critical systems were ready for the changeover to the year 2000. Eliminating service backlogs is a major priority for the year 2000.

The year under review has been a significant one for the Municipal Pension Plan, and as we head into the new millennium, we intend to challenge the Pension Corporation to provide high standards of service delivery to all plan contributors and retired members.



John W. Cook, Chair

## BOARD AS OF DECEMBER 31, 1999

Chair
- **John W. Cook**

Plan Member Representatives
- **Sharon Saunders**
- **Ken Davidson**
- **James Cook**
- **Steven Polak**

Government Representatives
- **John Herbert**
- **Bruce Kennedy**
- **Lyn Vandermey**

Union of BC Municipalities Representative
- **Richard Taylor**

## CONTACTS

The board's membership may include representatives from your workplace, association or organization. For further information, or to comment on your pension plan benefits, contact your local representative.

# THE PLAN AND ITS PARTICIPANTS

The Municipal Pension Plan is a contributory defined benefit pension plan. This means that an employee's basic pension is guaranteed regardless of the financial health of the plan. Benefits are based on an employee's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of enrolment. The plan also provides survivor and disability benefits.

Membership in the Municipal Pension Plan is open to all eligible employees of a municipality, school district, regional college or other employer to which the *Pension (Municipal) Act* applies. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

**MUNICIPAL PENSION PLAN EMPLOYERS**

| | Number of Employers |
|---|---|
| Cities, Districts, Towns, Villages and Regional Districts | 181 |
| Health Sector | 206 |
| School Districts | 57 |
| Colleges | 24 |
| Miscellaneous | 125 |
| Total | 593 |

**ACTIVE CONTRIBUTORS BY EMPLOYER GROUP**

| | Contributors per Group |
|---|---|
| Cities, Districts, Towns, Villages and Regional Districts | 26,654 |
| Health Sector | 59,200 |
| School Districts | 18,561 |
| Colleges | 4,166 |
| Miscellaneous | 3,706 |
| Total | 112,287 |

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

## INVESTMENTS AS AT DECEMBER 31, 1999

($ Billions)

| | Performance Benchmarks 1999 | 1999 | 1998 |
|---|---|---|---|
| Market Value | | $14.0 | $12.2 |
| Market Value Rates of Return | | | |
| Basic Account | | | |
| Annual | 14.8% | 13.3% | 9.6% |
| Five-year Average | 14.1% | 13.7% | 10.4% |
| Inflation Account | | | |
| Annual | 6.1% | 14.0% | 9.2% |
| Five-year Average | 5.2% | 13.6% | 10.1% |

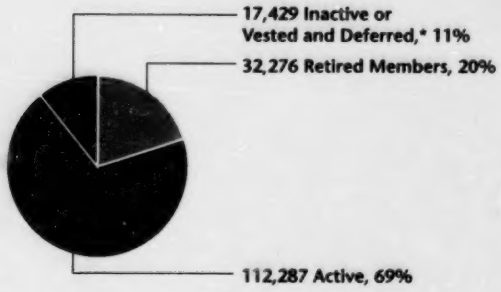
## LATEST ACTUARIAL VALUATION, DECEMBER 31, 1997

($ Billions)

| | Basic Pension Benefits Net Unfunded Liability 1997 | 1994 |
|---|---|---|
| For Funding Purposes (statutory contributions)* | $0.55 | $1.31 |
| Ratio of Unfunded Liability to Covered Payroll* | 14% | 36% |
| Based on Accrued Benefits to December 31 | $0.30 | $1.08 |

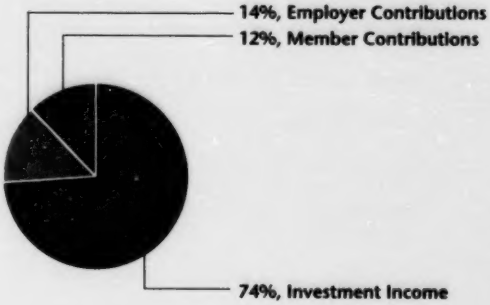
*Assuming contributions continue at existing statutory rates.

## 1999 MEMBERSHIP PROFILE

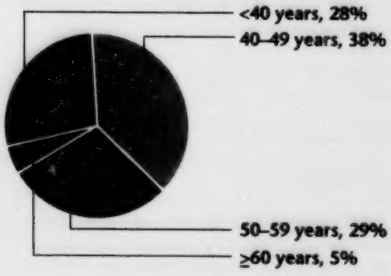



*Members no longer employed, but with money in the plan.

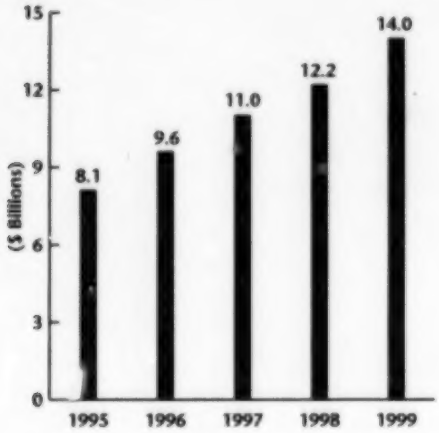
## 1999 REVENUE




## 1999 AGE PROFILE OF ACTIVE CONTRIBUTORS



## NET ASSETS AVAILABLE FOR BENEFITS AS AT DECEMBER 31, 1995–1999




## FIVE-YEAR SUMMARY STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (UNAUDITED)

($ Thousands)

| For the Year Ended December 31 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| **Increase in Assets** | | | | | |
| **Net Investment Income** | | | | | |
| Total Investment Income | $1,660,558 | $1,066,410 | $1,294,170 | $1,300,238 | $1,134,662 |
| Investment Management Costs | (13,401) | (12,956) | (11,738) | (7,254) | (4,682) |
| | 1,647,157 | 1,053,454 | 1,282,432 | 1,292,984 | 1,129,980 |
| **Contributions** | | | | | |
| Members | 271,831 | 269,599 | 258,307 | 250,105 | 237,170 |
| Employers | 302,592 | 295,578 | 273,589 | 257,144 | 242,989 |
| **Transfers from Other Plans** | 4,656 | 3,198 | 6,746 | 2,783 | 2,487 |
| **Total Increase in Assets** | 2,226,236 | 1,621,829 | 1,821,074 | 1,803,016 | 1,612,626 |
| **Decrease in Assets** | | | | | |
| **Pension Benefits** | 357,073 | 330,189 | 304,556 | 281,129 | 258,653 |
| **Termination Benefits** | 33,374 | 48,199 | 45,338 | 33,977 | 26,530 |
| **Transfers to Other Plans** | 1,576 | 1,607 | 3,979 | 676 | 193 |
| **Pensioner Group Benefits** | 30,860 | 27,126 | 25,209 | 16,048 | 11,958 |
| **Administration Costs** | 13,039 | 14,358 | 10,631 | 8,500 | 7,673 |
| **Total Decrease in Assets** | 435,922 | 421,479 | 389,713 | 340,330 | 305,007 |
| **Increase in Net Assets** | 1,790,314 | 1,200,350 | 1,431,361 | 1,462,686 | 1,307,619 |
| **Net Assets Available for Benefits at Beginning of Year** | 12,227,205 | 11,026,855 | 9,595,494 | 8,132,808 | 6,825,189 |
| **Net Assets Available for Benefits at End of Year** | $14,017,519 | $12,227,205 | $11,026,855 | $9,595,494 | $8,132,808 |
| | | As a Percentage of Net Assets | | | |
| Pension Administration Costs | 0.09% | 0.12% | 0.10% | 0.09% | 0.09% |
| Investment Management Costs | 0.10% | 0.11% | 0.11% | 0.08% | 0.06% |

# ROLES AND RESPONSIBILITIES

## MUNICIPAL PENSION BOARD

The Municipal Pension Board oversees the Municipal Pension Plan. The board includes representatives from employers and plan members. The *Public Sector Pension Plans Act*, which replaces legislation that previously governed the plan, was passed in 1999 and comes into full force on April 1, 2000.

The new legislation simplifies public sector pension plan administration and management. It also provides a mechanism for public sector pension plan stakeholders, government, employers, unions and plan members to pursue a joint trustee arrangement, if they wish.

The Municipal Pension Board has nine members: four represent the plan members, one represents the Union of BC Municipalities, and three represent the provincial government. The chair is appointed by the government and is the trustee of the plan. The board has three committees:

- Benefits Committee,
- Disability Pension Committee, and
- Employer Contribution Rate Committee.

Board members also participate on several interplan committees that deal with matters of common interest to the statutory BC pension plans (Teachers', College, Municipal and Public Service). These committees are:

- Interplan Audit Committee, and
- Interplan Communications Committee.

## BRITISH COLUMBIA PENSION CORPORATION

The *Public Sector Pension Plans Act* created two Crown corporations. The British Columbia Pension Corporation (Pension Corporation), which replaces the Superannuation Commission effective April 1, 2000, is responsible for administering pension benefits. The Pension Corporation's board is made up of members nominated from the statutory pension boards (Teachers', College, Municipal, Public Service).

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

Effective January 1, 2000, the British Columbia Investment Management Corporation (bcIMC) replaces the Office of the Chief Investment Officer of the Ministry of Finance and Corporate Relations. The bcIMC is responsible for investment management within asset mix policies approved by the trustee. The bcIMC's board also includes representatives from all the statutory pension boards.

# INVESTMENTS

## MESSAGE FROM THE CHIEF INVESTMENT OFFICER

### Markets

The year was another strong one for the Municipal Pension Plan. The Basic Account earned a 13.3% return and the Inflation Account earned a 14.0% return.

Within the domestic asset classes, 1999 was a mirror image of the previous year. Specifically, in 1998, government bonds had a strong year (9.4%) but the return from stocks was disappointing (the TSE 300 Index declined 1.6%). However, in 1999, higher interest rates led to low returns from bonds (Scotia Capital Government Bond Index return of -1.4%) but Canadian stocks were a stellar performer (31.7% for the TSE 300). Such market conditions clearly show the benefits of maintaining a well-diversified portfolio.

There were three main themes for equity markets during 1999. The first was the dominance of telecommunications and technology companies. Investors are expecting strong earnings growth from these companies and, as a result, their share prices have been pushed much higher.

The second theme was the narrowness of market leadership. Most of the increase in 1999 came from a few companies. In fact, without BCE (Bell Canada Enterprises) and Nortel Networks, the TSE 300 Index would have only appreciated by 8.8% in 1999. The positive side of the narrow leadership is that there is still scope for further appreciation. The negative side is that the growth of these companies has led to high valuations and a more concentrated equity market. The narrowness of the market also created a difficult environment for active equity managers, as our external managers underperformed the TSE 300 Index by 12.3% in 1999.

The final theme of capital markets has been a high degree of volatility. Investors have been quite nervous about rising interest rates and high equity valuations. Therefore, they have reacted quickly, and severely, both to positive and negative news.

Looking forward, we expect the high level of market volatility to continue, until there is more definitive evidence that U.S. economic growth has slowed to a more sustainable level.

## Organizational Change

The *Public Sector Pension Plans Act* not only provided the ability to change the governance framework for the statutory pension plans, but it also fundamentally altered the structure of the agencies that provide services to the plans. The Office of the Chief Investment Officer has been replaced by a new Crown corporation, the British Columbia Investment Management Corporation (bcIMC).

The bcIMC was established in November 1999 and assumed responsibility for managing the trust assets on January 1, 2000. The purpose of this change in structure was twofold. First, it reduces the potential for perceived conflicts between being government employees and our fiduciary duty to the trust clients. Second, it improves the governance and accountability framework by giving our clients a more meaningful say in the management of the investment agency.

Under the new structure, bcIMC has a seven person Board of Directors made up from its clients. This includes one representative from the Municipal Pension Board. The Board of Directors is responsible for overseeing the administration of the corporation (e.g., approval of budgets, business plan, financial statements, etc.). The board, however, is legislatively prohibited from getting involved in investment decisions. These will continue to be made by investment professionals, in accordance with the guidelines and the policies established by the funds' trustees.

The new structure represents an important step forward for the agency and is welcome by both myself and the staff. I am confident that the changes will lead to a stronger and more dynamic organization, which is better positioned to meet the challenges of global fund management on behalf of your fund.

Doug Pearce
Chief Investment Officer/Chief Executive Officer
British Columbia Investment Management Corporation

## APPROVED INVESTMENT ASSET MIX

The Municipal Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The plan's net assets grew 15% in 1999 to over $14 billion at December 31, 1999.

The asset mix policy range in the accompanying chart was approved by the trustee and was effective December 31, 1999. Strategic and short-term asset allocation targets are set within these ranges. Short-term for asset mix purposes includes government bonds with one- to five-year terms and money market funds.

**APPROVED INVESTMENT ASSET MIX**

| | Market Value | |
|---|---|---|
| Asset Class | Lower Limit | Upper Limit |
| **Debt** | **30%** | **50%** |
| Short-term | 0% | 30% |
| Bonds | 20% | 50% |
| Mortgages | 0% | 10% |
| **Equity** | **50%** | **70%** |
| Canadian Stocks | 20% | 50% |
| U.S. Stocks | 0% | 14% |
| International Stocks | 0% | 14% |
| Real Estate | 0% | 10% |
| Private Placements | 0% | 4% |

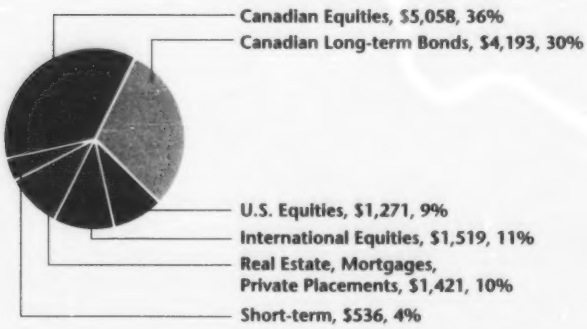
## INVESTMENT PORTFOLIO

**INVESTMENTS HELD AS AT DECEMBER 31, 1999**

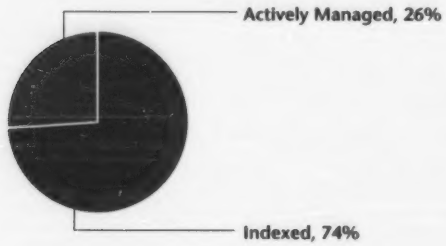
| | Market Value | Asset Mix % Market Value |
|---|---|---|
| Province of B.C. Pooled Investment Portfolio Units | | |
| Money Market | $ 125,189,726 | 1% |
| Canadian Bonds | | |
| Government | 3,604,384,378 | 26% |
| Corporate | 331,083,999 | 2% |
| Long-term | 69,707,855 | |
| Short-term (1-5 years) | 410,590,372 | 3% |
| Canadian Equities | | |
| Indexed | 3,720,487,020 | 27% |
| Actively Managed | 1,337,720,883 | 10% |
| U.S. Equities | | |
| Indexed | 772,286,982 | 6% |
| Actively Managed | 498,579,908 | 4% |
| International Equities | | |
| Asia | 180,473,696 | 1% |
| Europe | 433,598,114 | 3% |
| Europe, Australia and the Far East | 904,555,130 | 6% |
| Real Estate | 690,505,347 | 5% |
| Mortgages | 486,978,196 | 3% |
| Private Placements | 243,970,432 | 2% |
| Total Pooled Portfolios | $13,810,112,038 | 99% |
| Canadian Real Return Bonds | 188,309,358 | 1% |
| Total Investments | $13,998,421,396 | 100% |
| 1998 Comparison | $12,205,813,915 | |

### 1999 INVESTMENT HOLDINGS (MARKET VALUE)

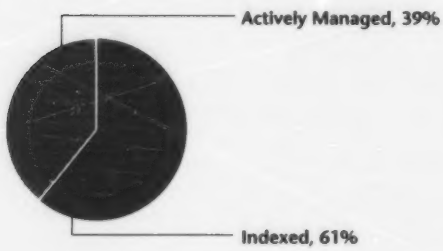
($ Millions)


Canadian Equities, $5,058, 36%
Canadian Long-term Bonds, $4,193, 30%
U.S. Equities, $1,271, 9%
International Equities, $1,519, 11%
Real Estate, Mortgages, Private Placements, $1,421, 10%
Short-term, $536, 4%

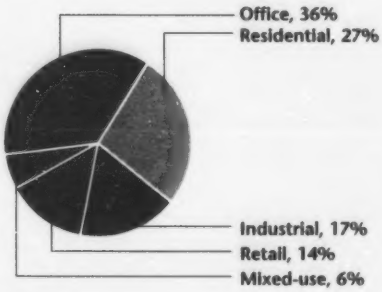
### CANADIAN EQUITIES (MARKET VALUE)



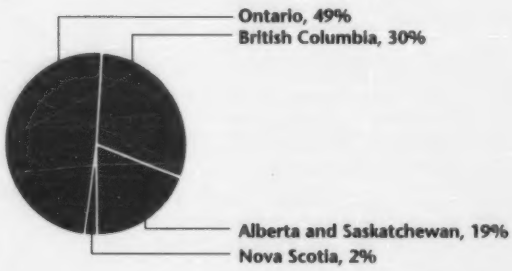

### U.S. EQUITIES (MARKET VALUE)




### REAL ESTATE, BY TYPE

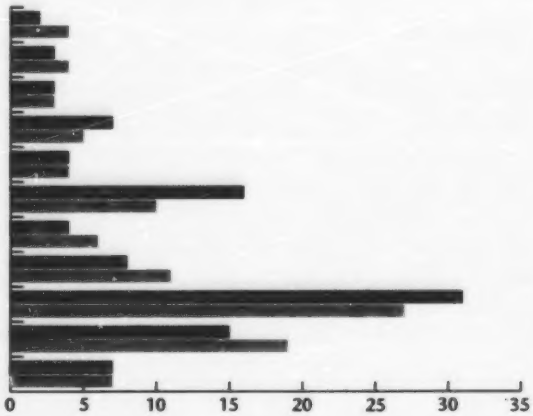



### REAL ESTATE, BY LOCATION



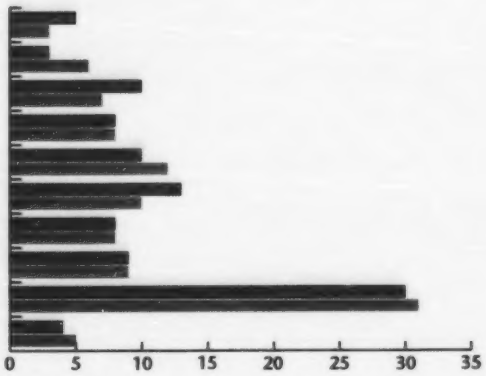
## CANADIAN EQUITY POOLS, BY SECTOR

| | Indexed | Actively Managed |
|---|---|---|
| Paper and Forest Products | 2% | 4% |
| Conglomerates | 3% | 4% |
| Gold and Silver | 3% | 3% |
| Communications and Media | 7% | 5% |
| Mines and Minerals | 4% | 4% |
| Utilities | 16% | 10% |
| Consumer Products | 4% | 6% |
| Oil and Gas | 8% | 11% |
| Industrial Products | 31% | 27% |
| Financial Services | 15% | 19% |
| Other | 7% | 7% |

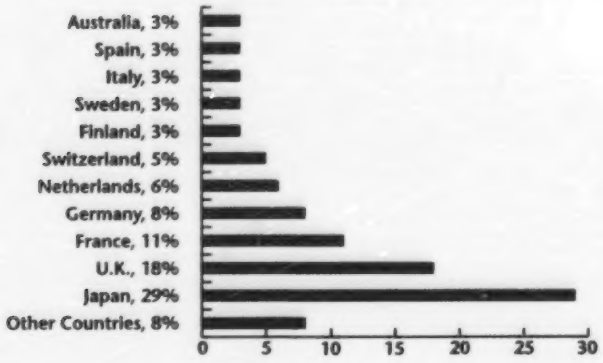



## U.S. EQUITY POOLS, BY SECTOR

| | Indexed | Actively Managed |
|---|---|---|
| Integrated Oils | 5% | 3% |
| Materials and Processing | 3% | 6% |
| Utilities | 10% | 8% |
| Producer Durables | 8% | 8% |
| Consumer Discretionary | 10% | 12% |
| Financial Services | 13% | 10% |
| Consumer Staples | 8% | 8% |
| Health Care | 9% | 9% |
| Technology | 30% | 31% |
| Other | 4% | 5% |



**INTERNATIONAL EQUITIES**




## INVESTMENT PERFORMANCE

**NET EARNED RATE OF THE FUND**

| Year | % |
|---|---|
| 1995 | 11.1 |
| 1996 | 10.5 |
| 1997 | 11.3 |
| 1998 | 10.4 |
| 1999 | 13.7 |

Rates of return are based on a five-year average.

# INVESTMENT PERFORMANCE

## MARKET VALUE RATES OF RETURN FOR THE YEAR ENDED DECEMBER 31, 1999

| | Basic Account | Inflation Account | Basic Account Performance Benchmarks | |
|---|---|---|---|---|
| **Five-year Average Rates** | | | | |
| 2000 | 13.7% | 13.6% | 14.1% | |
| 1999 Comparison | 10.4% | 10.1% | 10.8% | |
| **Annual Rates** | | | | |
| 2000 | 13.3% | 14.0% | 14.8% | |
| 1999 Comparison | 9.6% | 9.2% | 10.5% | |
| **Annual Rates by Investment Category** | | | 1999 Performance Benchmark Indices | |
| Short-term | | | | |
| Money Market | 5.0% | 5.0% | 4.7% | SCI 91-Day Treasury Bills |
| Bonds | 2.5% | 2.5% | 2.3% | SCI Short-term Bonds |
| Bonds | | | | |
| Government | (1.5%) | (1.5%) | (1.4%) | SCI Government Universe |
| Corporate | 0.0% | 0.0% | (0.2%) | SCI Corporate Universe |
| Real Return | | 7.7% | | |
| Canadian Equities | | | | |
| Actively Managed | 19.4% | 19.4% | 31.7% | TSE 300 |
| Indexed | | | | |
| TSE 300 | 31.5% | 31.5% | 31.7% | TSE 300 |
| TSE 100 | 32.2% | 32.2% | 32.8% | TSE 100 |
| U.S. Equities | | | | |
| Actively Managed | 15.7% | 15.7% | 14.2% | R 1000 |
| Indexed | 14.2% | 14.2% | 14.5% | S&P 500 |
| International Equities | | | | |
| Asia | 93.8% | 93.8% | 48.9% | MSCI Pacific Basin |
| Europe | 13.3% | 13.3% | 9.5% | MSCI Europe |
| Europe, Australia and the Far East | 26.5% | 26.5% | 20.0% | MSCI EAFE |
| Real Estate | 9.2% | 9.2% | 10.7% | R Cdn Properties |
| Mortgages | | | | |
| Fixed-term | 4.7% | 4.7% | 3.3% | SCI St Bond +1% |
| Construction | 7.4% | 7.4% | 5.1% | SCI 1 Yr Bills + 1% |

(Source: BC Investment Management Corporation)

**Performance Benchmark Indices Abbreviations**

| | | |
|---|---|---|
| SCI | = | Scotia Capital Inc. |
| S&P | = | Standard and Poor's |
| MSCI | = | Morgan Stanley Capital International |
| R | = | Russell |
| TSE | = | Toronto Stock Exchange |

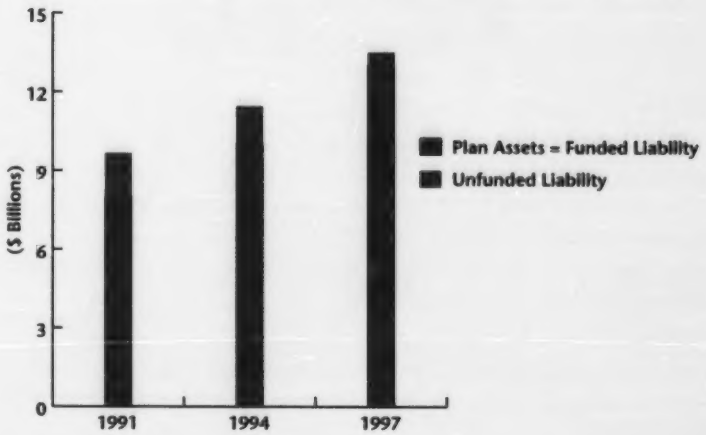
# ACTUARIAL VALUATION/ PLAN FUNDING

At least every three years, an independent actuary assesses the financial health of the pension plan and the adequacy of the contribution rates for funding the pension plan.

The plan is funded by contributions from both employees and employers. A key indicator of the fund's financial health is the unfunded liability as a percentage of the membership payroll covered by the plan. To assess funding, the valuation considers both benefits actually earned to date (accrued benefits) and benefits a member is likely to earn for future service.

At the last actuarial valuation on December 31, 1997, the Municipal Pension Fund's unfunded liability had declined by over half from the previous valuation (1997: $550 million, 1994: $1.3 billion). The next valuation will be as at December 31, 2000.

**TOTAL BASIC BENEFIT LIABILITY FOR FUNDING PURPOSES**




**LATEST ACTUARIAL VALUATION, DECEMBER 31, 1997**

**($ Billions)**

| | Basic Pension Benefits Net Unfunded Liability | | |
|---|---|---|---|
| | 1997 | 1994 | 1991 |
| For Funding Purposes (statutory contributions)* | $0.55 | $1.31 | $1.41 |
| Ratio of Unfunded Liability to Covered Payroll* | 14% | 36% | 50% |
| Based on Accrued Benefits to December 31 | $0.30 | $1.08 | $1.06 |

*Assuming contributions continue at existing statutory rates.

# MEMBER SERVICES

## CONTRIBUTORS AND CONTRIBUTIONS

The number of contributors and the amount of contribution revenue continued to grow in 1999. Active membership increased about 1%.

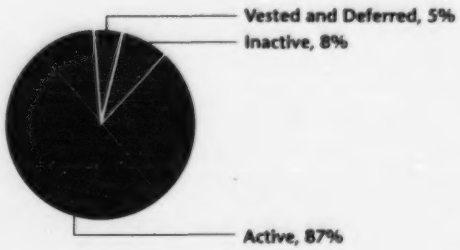
There are three categories of contributors.

- Active—those who are currently contributing, or are receiving benefits from an approved salary continuance plan or are on a leave of absence.
- Vested and deferred—those who have terminated their employment and are eligible for a pension in the future. The number of vested and deferred members from 1997 onward has been adjusted to include inactive members who are active in another BC Family of Plans pension plans and are likely to have a vested entitlement on a combined plan basis.
- Inactive—those who have terminated their employment with contribution balances on record but are not eligible for a pension.

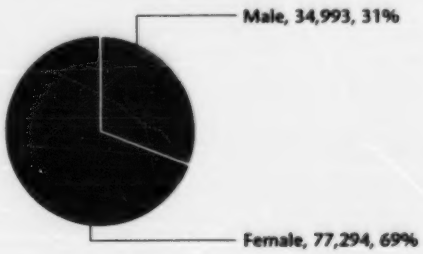
**NUMBER OF CONTRIBUTORS**

| | Active | Inactive | Vested and Deferred | Total |
|---|---|---|---|---|
| 1994 | 99,108 | 13,488 | 2,274 | 114,870 |
| 1995 | 102,213 | 14,396 | 2,310 | 118,919 |
| 1996 | 106,327 | 13,499 | 2,152 | 121,978 |
| 1997 | 108,093 | 11,157 | 4,354 | 123,604 |
| 1998 | 111,366 | 10,906 | 4,566 | 126,838 |
| 1999 | 112,287 | 11,222 | 6,207 | 129,716 |

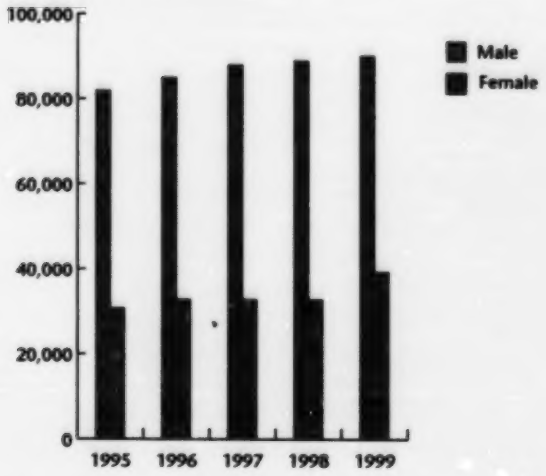
**1999 CONTRIBUTOR PROFILE**



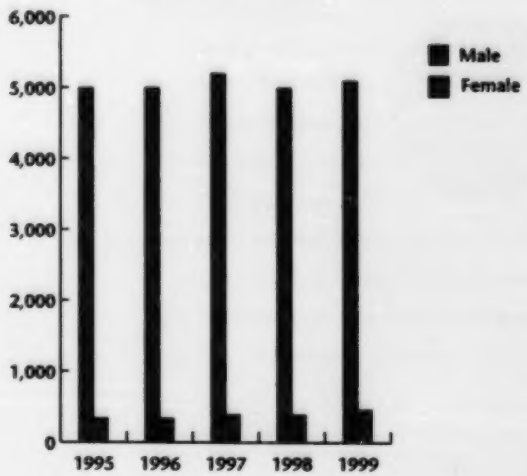

**1999 ACTIVE CONTRIBUTOR PROFILE**



**CONTRIBUTORS**
(Normal retirement, age 65)



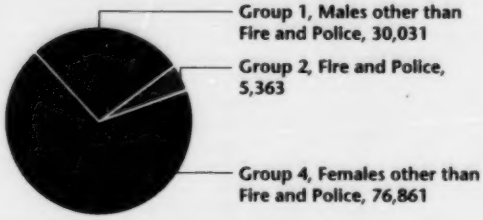

**CONTRIBUTORS**
(Normal retirement, age 60)




**ACTIVE CONTRIBUTORS BY EMPLOYER GROUP**

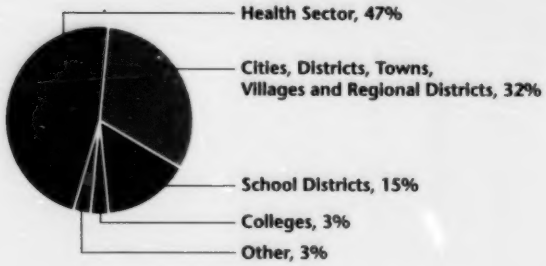
| | Group 1 | Group 2 | Group 3 | Group 4 | Total |
|---|---|---|---|---|---|
| Cities, Districts, Towns, Villages and Regional Districts | 13,325 | 5,310 | 13 | 8,006 | 26,654 |
| Health Sector | 8,413 | | 2 | 50,785 | 59,200 |
| School Districts | 6,234 | 0 | 13 | 12,314 | 18,561 |
| Colleges | 1,115 | 0 | 2 | 3,049 | 4,166 |
| Miscellaneous | 944 | 53 | 2 | 2,707 | 3,706 |
| Total | 30,031 | 5,363 | 32 | 76,861 | 112,287 |

## ACTIVE CONTRIBUTORS BY GROUP


Group 1, Males other than Fire and Police, 30,031
Group 2, Fire and Police, 5,363
Group 4, Females other than Fire and Police, 76,861

Note: There are also 32 Group 3 Females, Special Closed Group

## TOTAL REGULAR CONTRIBUTIONS BY EMPLOYER SECTOR AS A PERCENTAGE




## CONTRIBUTIONS

($ Millions)

Note: Total contributions include those for purchases of service.

## EMPLOYER CONTRIBUTION RATES BY GROUP AND AGE

| Group | <50 Years | ≥50 Years | <45 Years | ≥45 Years |
|---|---|---|---|---|
| 1 | 4.9% | 9.8% | n/a | n/a |
| 2 | n/a | n/a | 8.5% | 17.0% |
| 3 | n/a | n/a | 5.6% | 11.2% |
| 4 | 5.4% | 10.8% | n/a | n/a |

## TERMINATION BENEFITS

A terminating member may be eligible for one or more of the following benefits:

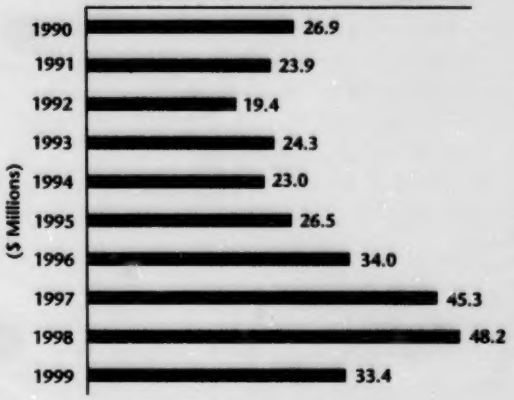
- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

The number of termination benefits paid can vary from year to year, depending on the employment environment. The value of termination benefits paid from 1995 onward also reflects the introduction in 1994 of the commuted value benefit option, which allows members to transfer the commuted value of their pension to a locked-in registered retirement savings plan or equivalent vehicle. Typically, commuted values, which represent the net present value of a future pension entitlement, are significantly higher in dollar value than members' personal accumulated contributions.

If a member leaves the plan and is eligible for a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the plan member's annual benefit statement.

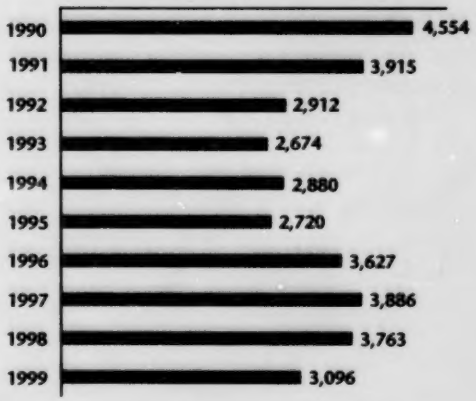
The rate of interest is governed by pension standards and pension plan legislation and is based on average five-year bank personal term deposit rates.

**VALUE OF TERMINATION BENEFITS PAID**




Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

**NUMBER OF TERMINATION BENEFITS PAID**




Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

**ANNUAL RATES FOR INTEREST CREDITED TO CONTRIBUTION BALANCES**

| | |
|---|---|
| 1995 | 6.88% |
| 1996 | 5.47% |
| 1997 | 4.54% |
| 1998 | 4.30% |
| 1999 | 4.56% |

## PENSIONS

The total dollar amount of pensions paid and the number of pensioners continues to grow, primarily as a result of the aging population of members. The number of pensions granted in 1999 increased by 13% over the number granted in 1998. The number of retired members on payroll increased by 7%.

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible,
- the month following the month in which the plan member receives the final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary, and years of service at retirement.

The accompanying table shows the average asset value ("present value") of pensions granted during 1999. The value represents approximately how much it would cost to purchase an average basic pension provided under the Municipal Pension Plan.

**VALUE OF NORMAL PENSIONS GRANTED JANUARY 1, 1999 TO DECEMBER 31, 1999**

**(Combination of those whose retirement age was 60 and 65)**
**Subdivided by years of service**

| Years of Service | Number of Pensions Granted | Average Annual Salary Base | Average Annual Pension (Single Life Option) | Average Present Value of Pensions | Total Present Value of Pensions ($ Millions) |
|---|---|---|---|---|---|
| <10 years | 430 | $41,000 | $ 3,200 | $ 38,000 | $ 16.3 |
| 10–14 | 354 | 41,000 | 8,700 | 80,000 | 28.3 |
| 15–19 | 344 | 42,000 | 10,000 | 121,000 | 41.6 |
| 20–24 | 360 | 44,000 | 14,000 | 161,000 | 58.0 |
| 25–29 | 259 | 53,000 | 25,000 | 309,000 | 80.0 |
| 30–34 | 199 | 60,000 | 31,000 | 440,000 | 87.6 |
| ≥35 | 46 | 57,000 | 38,000 | 436,000 | 20.1 |
| Total | 1,992 | n/a | n/a | n/a | $331.9 |
| All Pension Average | n/a | $59,000 | $18,000 | $167,000 | n/a |

## PENSIONS 1990–1999

| | Granted during Year | Pension Terminations | In Force at End of Year | Basic Pensions Paid ($ Millions) | Inflation Supplements Paid ($ Millions) | Special Agreement Supplements Paid ($ Millions) | Total ($ Millions) |
|---|---|---|---|---|---|---|---|
| 1990 | 1,434 | 355 | 18,394 | $135.2 | $37.8 | 0.1 | $173.1 |
| 1991 | 1,481 | 382 | 19,493 | 145.8 | 43.0 | 0.1 | 188.9 |
| 1992 | 1,578 | 376 | 20,695 | 157.8 | 50.5 | 0.1 | 208.4 |
| 1993 | 1,695 | 407 | 21,983 | 170.9 | 51.7 | 0.1 | 222.7 |
| 1994 | 1,991 | 418 | 23,556 | 188.0 | 53.9 | 0.1 | 242.0 |
| 1995 | 1,964 | 447 | 25,073 | 205.6 | 53.0 | 0.1 | 258.7 |
| 1996 | 2,080 | 439 | 26,714 | 224.0 | 57.0 | 0.1 | 281.1 |
| 1997 | 2,282 | 502 | 28,494 | 245.4 | 59.1 | 0.1 | 304.6 |
| 1998 | 2,340 | 606 | 30,228 | 268.4 | 61.6 | 0.2 | 330.2 |
| 1999 | 2,652 | 604 | 32,276 | $295.2 | $61.6 | 0.3 | $357.1 |

## PENSIONS GRANTED, BY TYPE 1990–1999

| | Normal* | Death* | Disability | Deferred | Total |
|---|---|---|---|---|---|
| 1990 | 1,107 | 43 | 154 | 130 | 1,434 |
| 1991 | 1,187 | 42 | 148 | 104 | 1,481 |
| 1992 | 1,245 | 36 | 168 | 129 | 1,578 |
| 1993 | 1,334 | 62 | 176 | 123 | 1,695 |
| 1994 | 1,588 | 51 | 220 | 132 | 1,991 |
| 1995 | 1,575 | 52 | 200 | 137 | 1,964 |
| 1996 | 1,670 | 59 | 205 | 146 | 2,080 |
| 1997 | 1,815 | 47 | 274 | 146 | 2,282 |
| 1998 | 1,842 | 74 | 243 | 181 | 2,340 |
| 1999 | 1,992 | 50 | 447 | 163 | 2,652 |

*Pensions granted do not include any pension continued to a beneficiary upon the death of a pensioner.
+LTD pensions are those for members on long-term disability who became eligible for a regular pension.

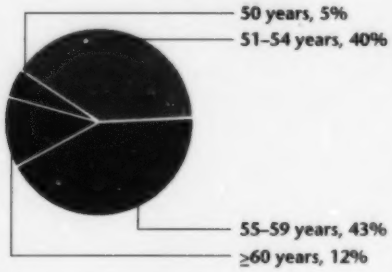
## NORMAL PENSIONS GRANTED IN 1999, AGE AT RETIREMENT

**(For those whose normal retirement age was 60)**
**Subdivided by years of service and age at retirement**

| Years of Service | 50 | 51–54 | 55–59 | 60+ | Total |
|---|---|---|---|---|---|
| <10 yrs | 1 | 2 | 1 | 1 | 5 |
| 10–14 | | 1 | 2 | | 3 |
| 15–19 | | | 2 | 2 | 4 |
| 20–24 | 1 | 1 | 4 | 5 | 11 |
| 25–29 | 5 | 43 | 26 | 4 | 78 |
| 30–34 | 2 | 33 | 44 | 5 | 84 |
| ≥35 | | | 6 | 7 | 13 |
| Total | 9 | 80 | 85 | 24 | 198 |

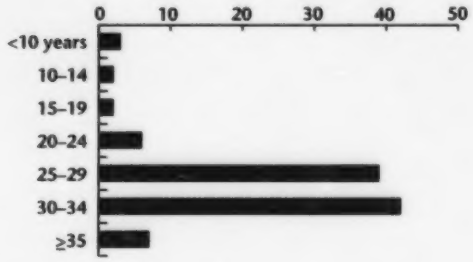
## PERCENTAGE OF 1999 NORMAL PENSIONS GRANTED BY AGE

(Normal retirement, age 60)



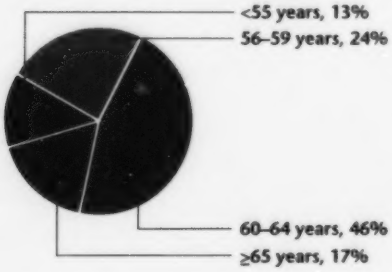

## PERCENTAGE OF 1999 NORMAL PENSIONS BY YEARS OF SERVICE

(Normal retirement, age 60)



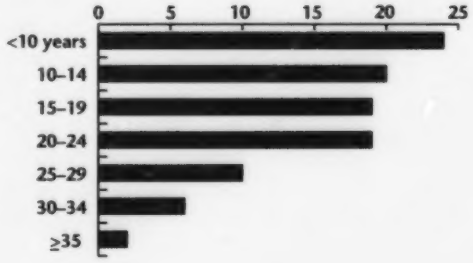

## PERCENTAGE OF 1999 NORMAL PENSIONS GRANTED BY AGE

(Normal retirement, age 65)




## PERCENTAGE OF 1999 NORMAL PENSIONS BY YEARS OF SERVICE

(Normal retirement, age 65)




## NORMAL PENSIONS GRANTED IN 1999, AGE AT RETIREMENT

(For those whose normal retirement age was 65)
Subdivided by years of service and age at retirement

| Years of Service | 55 | 56-59 | 60-64 | 65+ | Total |
|---|---|---|---|---|---|
| <10 yrs | 48 | 95 | 181 | 101 | 425 |
| 10–14 | 46 | 87 | 164 | 54 | 351 |
| 15–19 | 38 | 81 | 154 | 67 | 340 |
| 20–24 | 41 | 75 | 177 | 56 | 349 |
| 25–29 | 31 | 41 | 92 | 17 | 181 |
| 30–34 | 18 | 46 | 45 | 6 | 115 |
| ≥35 | 8 | 11 | 11 | 3 | 33 |
| Total | 230 | 436 | 824 | 304 | 1,794 |

## OTHER

### Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Municipal Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Municipal Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Municipal Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 1999, there were 61 reciprocal transfers in from other pension plans and 36 transfers out. The transfers in totaled approximately $4.7 million; transfers out totaled approximately $1.6 million. As a result of changes in inter-plan portability provisions, transfers now include transfers between the Municipal Pension Plan and three other BC public sector plans (College, Teachers' and Public Service).

### Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- approved leaves of absence
- arrears contributions
- non-contributory service, or
- reinstatement of refunded contributions.

**MEMBER AND EMPLOYER PURCHASES OF ADDITIONAL SERVICE**

| | Number of Purchases | | Value of Purchases ($ Thousands) | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Reinstatement of Refunded Contributions | 534 | 925 | $ 5,200 | $ 7,985 |
| Non-contributory Service | 334 | 382 | 2,781 | 3,699 |
| Other | 719 | 1,310 | 2,588 | 4,181 |
| Total | 1,587 | 2,617 | $10,569 | $15,865 |

### Communications

The board continues to make communicating with plan members a priority. Recent initiatives include the Pension Corporation's public web site that was introduced in 1999. The address of this web site is www.pensions.gov.bc.ca. The Pension Corporation also continues to produce *Pensionfacts*, a series of information sheets on various topics, as well as a pensioner newsletter twice a year.

## Report of the Auditor General of British Columbia

*To the Members of the Municipal Pension Board, and*

*To the Minister of Finance and Corporate Relations, Province of British Columbia:*

I have audited the statement of net assets available for benefits of the *Municipal Pension Plan* as at December 31, 1999 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the British Columbia Pension Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Municipal Pension Plan* as at December 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

*Victoria, British Columbia*
*May 15, 2000*

Wayne Strelioff, CA
Auditor General

PENSION
CORPORATION

Executive
Offices

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## MUNICIPAL PENSION PLAN

## ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan were prepared by the British Columbia Pension Corporation (previously known as the Superannuation Commission), the benefit administrator for the plan. The corporation is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.,
Vice-President, Information Management,
Finance and Administration
British Columbia Pension Corporation

May 15, 2000

## MUNICIPAL PENSION PLAN
## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
*($ Thousands)*

| December 31 | 1999 | 1998 |
|---|---|---|
| **ASSETS** | | |
| Investments (Note 3) | $ 13,998,421 | $ 12,205,814 |
| Receivables | | |
| Members' contributions | 13,533 | 12,611 |
| Employers' contributions | 12,942 | 12,851 |
| Accrued investment income | 685 | 660 |
| Other | 40 | 44 |
| | 27,200 | 26,166 |
| Prepaid expenses | 1,587 | 977 |
| Cash | 4,277 | 7,691 |
| Total Assets | 14,031,485 | 12,240,648 |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | 13,966 | 13,443 |
| Total Liabilities | 13,966 | 13,443 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | $ 14,017,519 | $ 12,227,205 |

Obligations for Accrued Pension Benefits for Accounting Purposes (Note 7)

The 10 accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair, Municipal Pension Board,
Trustee

## MUNICIPAL PENSION PLAN
## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
*($ Thousands)*

| For the year ended December 31 | Basic Account | Retirement Annuity Account | Inflation Adjustment Account | Supplemental Benefits Account | Totals 1999 | 1998 |
|---|---|---|---|---|---|---|
| **INCREASE IN ASSETS** | | | | | | |
| Net investment income (Note 4) | $ 1,321,410 | $ 36,766 | $ 288,981 | $ - | $ 1,647,157 | $ 1,053,454 |
| Contributions (Note 5) | | | | | | |
| Members | 223,450 | 6,336 | 41,801 | 244 | 271,831 | 269,599 |
| Employers | 246,538 | 7,755 | 17,238 | 31,061 | 302,592 | 295,578 |
| | 469,988 | 14,091 | 59,039 | 31,305 | 574,423 | 565,177 |
| Transfers from other plans | 3,925 | - | 731 | - | 4,656 | 3,198 |
| Total Increase in Assets | 1,795,323 | 50,857 | 348,751 | 31,305 | 2,226,236 | 1,621,829 |
| **DECREASE IN ASSETS** | | | | | | |
| Pension benefits paid | | | | | | |
| Contributory | 295,192 | - | - | - | 295,192 | 268,422 |
| Indexing supplements and other | 61,628 | - | - | - | 61,628 | 61,622 |
| Supplemental pensions (Note 10) | - | - | - | 253 | 253 | 145 |
| | 356,820 | - | - | 253 | 357,073 | 330,189 |
| Termination benefits paid | 24,762 | 1,603 | 6,950 | 59 | 33,374 | 48,199 |
| Transfers to other plans | 1,306 | 27 | 243 | - | 1,576 | 1,607 |
| Retired member group benefits (Note 10) | - | - | - | 30,860 | 30,860 | 27,126 |
| Administration costs (Note 9) | 12,906 | - | - | 133 | 13,039 | 14,358 |
| Total Decrease in Assets | 395,794 | 1,630 | 7,193 | 31,305 | 435,922 | 421,479 |
| **INCREASE IN NET ASSETS BEFORE TRANSFERS** | 1,399,529 | 49,227 | 341,558 | - | 1,790,314 | 1,200,350 |
| Account transfers (Note 6) | (157,616) | (23,046) | 180,662 | - | - | - |
| **INCREASE IN NET ASSETS** | 1,241,913 | 26,181 | 522,220 | - | 1,790,314 | 1,200,350 |
| **NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR** | 9,881,727 | 286,409 | 2,059,069 | - | 12,227,205 | 11,026,855 |
| **NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR** | $ 11,123,640 | $ 312,590 | $ 2,581,289 | $ - | $ 14,017,519 | $12,227,205 |

Supplemental Benefits Account (Note 10)

## MUNICIPAL PENSION PLAN
## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 1999

### 1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The *Public Service Pension Plans Act* was passed by the BC legislature on July 15, 1999 but was not yet in force at December 31, 1999. Effective April 1, 2000, the existing Pension (Municipal) Act and related regulations are repealed and the Municipal Pension Plan becomes governed by Schedule B of the new act. The following brief description of the plan is provided for general information only. For more information refer to the acts.

**a) General**

The plan is a contributory defined benefit pension plan open to eligible employees of a municipality, hospital district, school district, or other employer to which the act applies.

**b) Roles and Responsibilities**

The Municipal Pension Board oversees the administration of the pension plan. The chair of the Municipal Pension Board is the trustee.

Up until December 31, 1999 the trustee placed funds for investment with the Office of the Chief Investment Officer of the Ministry of Finance and Corporate Relations (OCIO). On January 1, 2000, the *Public Service Pension Plans Act* creates a new crown corporation, the British Columbia Investment Management Corporation to replace the OCIO and to continue carrying out the day-to-day investment management services for the pension fund.

Up until March 31, 2000 pension benefits are administered on behalf of the plan by the Superannuation Commission of the Ministry of Finance and Corporate Relations. On April 1, 2000, the *Public Service Pension Plans Act* creates the British Columbia Pension Corporation to replace the commission and to continue carrying out benefit administration services.

**c) Pension Benefits**

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least two years contributory service (age 55 for certain groups); or

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

### c) Pension Benefits (continued)

- at age 55 or older, with age plus years of service equalling 90 or more (age 50 or older and age plus service equalling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The unreduced bridging benefit is .7% of the lesser of YMPE or the HAS, for each year of the member's pensionable service since January 1, 1966 (when CPP was introduced).

Increases to pension payments are provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6).

At January 1, 1999 retired members received a full CPI increase of .7% (1998 – 1.6%); at January 1, 2000 retired members will receive a full CPI increase of 2.6%.

### d) Termination and Portability Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest;
- a transfer of the commuted value of the pension benefit to a locked-in RRSP, or registered pension plan or similar tax-sheltered plan; or
- a deferred pension.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. Where there are portability arrangements between the Municipal Pension Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Municipal Pension Plan.

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

### e) Other Benefits

Supplemental (Note 10), disability and survivor benefits are available under the plan. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefit.

### f) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* and is not subject to income taxes, except for any supplemental benefits (Note 10) which are provided in addition to the RPP.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employers and members.

### b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

### c) Investment Income

Investment income is recorded on the accrual basis.

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 3. INVESTMENTS (Market Value)

| | 1999 | | | 1998 |
|---|---|---|---|---|
| | Basic Account | Inflation Adjustment Account | Total | Total |
| | | | *($ Thousands)* | |
| Short-term | $ 45,352 | $ 79,838 | $ 125,190 | $ 251,040 |
| Canadian Bonds | 3,827,471 | 776,605 | 4,604,076 | 4,679,363 |
| Canadian Equities | 4,205,974 | 852,234 | 5,058,208 | 4,032,850 |
| U.S. Equities | 1,058,279 | 212,588 | 1,270,867 | 1,085,351 |
| International Equities | 1,267,589 | 251,038 | 1,518,627 | 1,164,994 |
| Mortgages | 400,771 | 86,207 | 486,978 | 365,418 |
| Real Estate | 574,206 | 116,299 | 690,505 | 511,171 |
| Private Placements | 243,970 | - | 243,970 | 115,627 |
| | $11,623,612 | $2,374,809 | $13,998,421 | $12,205,814 |

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the British Columbia Investment Management Corporation. Each unit gives its holder a proportionate share in the equity of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets.

For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (1999 - $312,590; 1998 - $286,409).

## MUNICIPAL PENSION PLAN
## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 1999

### 4. INVESTMENT INCOME

| | 1999 | | | 1998 |
|---|---|---|---|---|
| | Income Allocation | Current Period Change In Market Value | Total | Total |
| | | | *($ Thousands)* | |
| **Basic Account** | | | | |
| Short-term | $ 5,203 | $ (164) | $ 5,039 | $ 12,470 |
| Canadian Bonds | 229,559 | (271,017) | (41,458) | 323,165 |
| Canadian Equities | 60,430 | 874,441 | 934,871 | 2,191 |
| U.S. Equities | 14,300 | 121,343 | 135,643 | 280,167 |
| International Equities | 19,581 | 254,449 | 274,030 | 223,158 |
| Mortgages | 23,090 | (5,616) | 17,474 | 18,644 |
| Real Estate | 24,932 | 22,983 | 47,915 | 49,881 |
| Private Placements | 4,748 | (8,799) | (4,051) | 2,606 |
| | $381,843 | $ 987,620 | $1,369,463 | $ 912,282 |
| Investment Management Costs | | | (11,287) | (11,010) |
| Net Investment Income | | | 1,358,176 | 901,272 |
| Less: Retirement Annuity Account Income Allocation | | | (36,766) | (26,888) |
| | | | $1,321,410 | $ 874,384 |
| **Inflation Adjustment Account** | | | | |
| Short-term | $ 2,766 | $ (8) | $ 2,758 | $ 2,614 |
| Canadian Bonds | 46,920 | (40,430) | 6,490 | 52,355 |
| Canadian Equities | 12,006 | 176,195 | 188,201 | (3,818) |
| U.S. Equities | 2,809 | 23,838 | 26,647 | 50,725 |
| International Equities | 3,850 | 50,158 | 54,008 | 40,089 |
| Mortgages | 4,479 | (1,100) | 3,379 | 3,190 |
| Real Estate | 4,997 | 4,615 | 9,612 | 8,973 |
| | $77,827 | $213,268 | $ 291,095 | $ 154,128 |
| Investment Management Costs | | | (2,114) | (1,946) |
| Net Investment Income | | | $ 288,981 | $ 152,182 |
| **Total Basic and Inflation Adjustment Accounts** | | | | |
| Total Investment Income | | | $1,660,558 | $1,066,410 |
| Total Investment Management Costs | | | (13,401) | (12,956) |
| Total Net Investment Income | | | $1,647,157 | $1,053,454 |

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the British Columbia Investment Management Corporation, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the net earned rate of the fund.

## MUNICIPAL PENSION PLAN
## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 1999

### 5. CONTRIBUTIONS

| | 1999 | | | | | 1998 |
|---|---|---|---|---|---|---|
| | Basic Account | Retirement Annuity Account | Inflation Adjustment Account | Supplemental Benefits Account | Total | Total |
| | | | | | *($ Thousands)* | |
| **Members' contributions** | | | | | | |
| Regular | $216,249 | $ - | $41,317 | $ - | $257,566 | $252,589 |
| Special agreement | - | 6,336 | - | - | 6,336 | 5,953 |
| Arrears | 827 | - | 97 | - | 924 | 1,180 |
| Purchase of service | 1,220 | - | 58 | - | 1,278 | 1,132 |
| Leave of absence | 240 | - | 43 | - | 283 | 421 |
| Reinstatement | 4,914 | - | 286 | - | 5,200 | 7,985 |
| Supplemental benefits | - | - | - | 244 | 244 | 339 |
| | 223,450 | 6,336 | 41,801 | 244 | 271,831 | 269,599 |
| **Employers' contributions** | | | | | | |
| Regular | 243,964 | - | 16,937 | - | 260,901 | 255,681 |
| Special agreement | - | 7,746 | - | - | 7,746 | 7,256 |
| Arrears | 987 | - | 130 | - | 1,117 | 2,179 |
| Purchase of service | 1,363 | 9 | 131 | - | 1,503 | 2,567 |
| Leave of absence | 224 | - | 40 | - | 264 | 401 |
| Reinstatement | - | - | - | - | - | - |
| Supplemental benefits | - | - | - | 31,061 | 31,061 | 27,494 |
| | $246,538 | $ 7,755 | $17,238 | $31,061 | $302,592 | $295,578 |
| **Total Contributions** | $469,988 | $14,091 | $59,039 | $31,305 | $574,423 | $565,177 |

### 6. ACCOUNT TRANSFERS

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | Basic Account | Retirement Annuity Account | Inflation Adjustment Account | Basic Account | Retirement Annuity Account | Inflation Adjustment Account |
| | | | *($ Thousands)* | | | |
| Present value of current indexing supplements | $ 19,597 | $ - | $ (19,597) | $ 41,080 | $ - | $(41,080) |
| Indexing of deferred pensions | 1,199 | - | (1,199) | 1,283 | - | (1,283) |
| Excess interest | (201,458) | - | 201,458 | (118,142) | - | 118,142 |
| Pensions purchased from Retirement Annuity Account | 23,027 | (23,027) | - | 18,637 | (18,637) | - |
| Other | 19 | (19) | - | 78 | (87) | 9 |
| | $(157,616) | $(23,046) | $180,662 | $(57,064) | $(18,724) | $ 75,788 |

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members (Note 8), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 6. ACCOUNT TRANSFERS (continued)

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the Inflation Adjustment Account to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the Inflation Adjustment Account to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $3.1 billion of assets for 1999, $2.9 billion for 1998). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.25%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 1999 was 6.45% (1998 – 4.1%). Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic Account as additional pensions are purchased.

## 7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

For accounting purposes, the plan actuary values pensions as at, and pension liabilities accrued to, the financial statement date. An actuarial valuation is performed every three years. The latest valuation was made as of December 31, 1997, by Eckler Partners Ltd. At that valuation, net assets were $7.8 billion (1994 - $5.5 billion) and liabilities for accrued pension benefits were $8.1 billion (1994 - $6.6 billion), resulting in a net deficiency of $.3 billion (1994 - $1.1 billion).

The present value of liabilities for accrued basic pension benefits was determined using the projected benefit method prorated on service. Accrued basic pension benefits include all indexing granted to the date of valuation, but not future indexing. The underlying basis for the net asset valuation is a five-year investment market smoothing.

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES (continued)

Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

The next formal actuarial valuation will be as at December 31, 2000, but will not be available until December 31, 2001.

It is required that extrapolations between valuations be calculated and one has been done to December 31, 1999 using the 1997 long-term assumptions. However, extrapolations are not reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions, of necessity, used in the extrapolation. On that basis, the extrapolated deficit to December 31, 1999 is $.35 billion.

## 8. FUNDING

### a) Contributions

Basic Account

Members contribute to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($37,400 in 1999), and 6.5% of salaries above that.

Employers contribute to the Basic Account at varying rates depending on the mix of employees in the group rate classifications specified by the plan, less amounts allocated to the Supplemental Benefits Account (1999 – $6,667,782; 1998 - $6,417,152) (see Note 10).

Inflation Adjustment Account and Supplemental Benefits Account

Members contribute 1.0% of salaries to the Inflation Adjustment Account. Employers contribute 1.0% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (1999 - $24,393,557; 1998 - $21,076,608) (see Note 10).

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 8. FUNDING (continued)

### a) Contributions (continued)

Retirement Annuity Account

Some employers have special agreements with members by which both make extra contributions to increase the members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic Account as additional pensions are purchased with the accumulated monies.

### b) Actuarial Valuation for Funding Purposes

An actuarial valuation of the plan's assets and pension obligations is performed every three years to determine an appropriate combined employer and member contribution rate to fund the plan. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on a level contribution method. Using this method, the contribution rate consists of two elements:

- a level rate which will fully pay for benefits earned by typical new entrants to the plan; and
- a level rate which will maintain the plan's unfunded actuarial liability (UAL) as a constant percentage of employer payroll, assuming future contributions are also made at the above rate.

The most recent actuarial valuation for funding purposes was prepared as at December 31, 1997. This valuation disclosed an unfunded liability for basic pension benefits of $.55 billion (1994 - $1.31 billion), assuming future contributions at the existing statutory rates. The decrease is largely a result of excess investment returns and lower than assumed general salary increases.

As a result of this valuation, the actuary's calculated level contribution rate for basic pension benefits was 0.23% of employer payroll higher than the existing statutory rates. However, in accordance with the act, the rate increase has not been implemented, as discussed in Note 8(c).

The following table shows a key indicator of the financial health of a pension plan, the UAL as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the statutory rates in place at the time rather than the actuary's calculated rates.)

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999

## 8. FUNDING (continued)

### b) Actuarial Valuation for Funding Purposes (continued)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (b) | Unfunded Actuarial Liability (UAL) (c) | Covered Payroll (d) | UAL as a Percentage of Payroll (c/d) |
|---|---|---|---|---|---|
| | *($ Billions)* | | | | |
| 1991 | 7.94 | 9.35 | 1.41 | 2.85 | 50% |
| 1994 | 10.13 | 11.44 | 1.31 | 3.64 | 36% |
| 1997 | 12.65 | 13.20 | .55 | 3.92 | 14% |

### c) Funding Policy

July 1994 changes to the act affirmed the level contribution method as the funding policy for the plan. This policy calls for any increases in the UAL as a percentage of employer payroll to be amortized, by way of an increase in employer contributions, over not more than 15 years. However, the legislation also requires, on a transitional basis, that no increase in employer contributions is to occur, as long as the plan's financial experience remains the same or continues to improve from one valuation to the next, based on the UAL as a percentage of employer payroll (see table in Note 8(b)).

If a surplus arises, it may be amortized, by a reduction in employer contributions, over not less than 15 years.

As noted in the final column of the table in Note 8(b), the plan's financial status improved at the last valuation and accordingly, the statutory group contribution rates have not been increased.

## 9. RELATED PARTY TRANSACTIONS

### a) Administration Costs

Administration costs include general administration costs and actuarial fees. General administration costs incurred by the British Columbia Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. General administration costs include all salaries, Municipal Pension Board expenses, and other operating and administration costs.

**MUNICIPAL PENSION PLAN**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 1999**

## 9. RELATED PARTY TRANSACTIONS (continued)

### b) Investment Management Costs

The British Columbia Investment Management Corporation has statutory responsibility for managing investments on behalf of the plan and uses internal and external investment managers for this purpose. Total investment management fees for 1999 were $13.4 million. Of this amount, $1.33 million was charged for internal investment management services (1998 - total fees $13 million; internal management services $1.4 million).

## 10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account provides for the payment and funding of supplemental benefits, such as contributions and benefits which exceed *Income Tax Act (Canada)* limits for registered pension plans, and group medical, extended health and dental benefits for retired members.

Medical, dental and extended health coverage for retired members are fully funded by employer contributions.